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A Word of Comment
on Mr. James A. Rice's article

"A New Social Compact in the Former Soviet Union"

The article opens a series of publications on the **Zdrav***Reform* program and calls the right tune at once -- a critical appraisal of the present stage of Russia's health care reform, a polemic thrust in raising some of the problems involved and in seeking solutions, while steering clear of what must, on balance, be minor political problems which beset many health sector leaders today. The focus of the analysis is on major issues of shaping the strategy of the sector's development. These problems do, in one way or another, face nations with differing health systems; so it is particularly important to have the opinion of a man who has been in a position to compare and summarize differential modes of approach to resolving similar problems.

To begin with, the author should be given his due and his right to appraise our reforms must be seen as unchallengeable. Mr. James Rice has succeeded in making out Russia's major health care problems in a matter of months. And although some of his judgments show him up as a foreigner (for example, urging pensions scheme and unemployment insurance legislation in Russia is what you might call "spurring a willing horse," still most of the views he has expressed prove the author to be well familiar with our "tender spots", including our conflict situations. It is not by chance that the article should have given much prominence to the issue of the role of health services management -- a subject of our unending debate and an object of above-board and behind-the-scenes tug-of-war between the Ministry of Health and insurance agencies.

One wouldn't quarrel with the author's pivotal plea for a new social compact, that is, an integrated approach to health care. In fact, there is nothing new in the way the matter is put -- we've been talking about it a great deal for a long time. But a searching reader will certainly notice an important detail: the author quite reasonably finds the Ministry of Health to be central to implementing a strategy of comprehensive approach to health care. It is the Ministry of Health that must coordinate all efforts in this field. For this reason, its functions comprise, apart from everything else, devising the principles and standards of public health supervision and epidemiological monitoring, and actually working to enforce them, gathering and processing the current health care demand data. The fact, however, is that the role of the Ministry of Health in this area is quite limited in Russia, being as it is rather the concern of another department. In consequence, the task of a global approach to health protection is artificially broken down into fragments controlled by various departments while the Ministry itself turns out to be sort of tempted to deal with matters which might otherwise well be left to medical institutions and insurance companies.

The article formulates the role of health care management and spells out their functions but the main thing that sets it apart from what many of our

departmental regulations say in describing these functions is the definition it offers of what the health sector management bodies *must not* concern themselves with. And although the way it is worded wants a good deal of editing, it still asserts the central idea of the modern health care reforms in Western countries - the Ministry of Health and local health departments do not act as actual health care providers, nor do they manage financial resources. Of course, control agencies do *finance* the LPUs (the Russian acronym for curative and preventive treatment boards) - so the claim on this score in the article holds no water, to put it mildly - but the principles and methods of this financing do not at all square with the notions of many of our health sector executives. The new role of the health department as the funding party lies in that it turns from a fund manager into an informed purchaser of medical aid and acts as a partner with contractual obligations linking it to the LPU. To use the terminology common in Western economic literature, health care is evolving from an integrated system in which medical aid provision and financing are the functions of an administration authority to contracting model that implies splitting the functions of financing and providing medical aid and also vesting the LPU with the powers of an independent accounting unit.

The author may well be presumed to be aware that while professing their personal responsibility for the state of the health services, the regional health department chiefs and the directors of the Territorial Funds of medical insurance organizations (OMS) still apportion the funding among health care providers, guided by their own thinking about the way it can be used best. The idea ventured in the article about dividing the functions of strategic administration of the health industry and the provision of medical aid is most relevant for the Russian health services. Much will have to be changed before health sector leaders and practitioners grasp the plain truth that the volumes and quality of the bulk of medical aid are the responsibility of medical institutions while administering authorities operate as its purchasers and architects of standard-setting regulations for contractual relations. Only a few types of aid (above all, those socially hazardous, with a pronounced exterior effect) are excluded from the area of market relations and responsibility for their provision is left direct to the health care administration authorities (for example, for the maintenance of psychiatric and narcological services).

A further relevant point is that health care financing under contract must be concentrated in the hands of insurance companies as independent intermediators between health care providers and patients. Elaborating on this argument, one can say that it is necessary to end the fallacious practice of split-funding of the LPUs via administration authorities and OMS and integrate finance at one point, mostly (70-80%) in insurance companies. The case for this mode of approach can be made with the following arguments.

First, it is wrong to divide, by the sources and recipients of financing, what are the interconnected parts of an intergrated set of health care providers - hospitals, outpatient clinics, first aid stations etc. This means ruling out the possibilities for optimizing their relationship and exploring most cost-effective medical technologies as well as enhancing the role of outpatient services (district health centers) and primary care they furnish.

Second, the present widespread separate financing of the working and the non- working contingents of the population (funded by OMS and the budget, respectively) constrains the possibilities of planning financial resources. A general shortage of resources in these circumstances is exacerbated by the unpredictability of their receipt from two disconnected and, most often, conflicting sources. This separation creates, besides, a danger of the LPUs dividing the patients into "worthwhile" and "non worthwhile", depending on the fullness of financing by the OMS or an administration authority.

Third, it is unacceptable for budget allocations to be used to cover business and all capital expenditures (that is, for the administration authorities to maintain the LPUs), with the insurers bearing other expenses. The result is to artificially deter the decommissioning either of slack capacities or those impossible to keep going at the present level. Moreove, this saps incentives for effective utilization of material and power resources since the related costs are more often than not left out of the service rates. The regulatory role of the price is lost, and responsibility for this spending is shifted from the LPUs to the local administration authorities that provide the means thus involved.

Which party will be the best purchaser of medical aid is arguable. In a number of territories covered by ZdravReform program activities, administration authorities boast a larger body of experience in respect of contractual relations and settlements with LPUs than insurance companies. It is hardly worth while changing the existing system overnight. Yet with insurance companies coming of age and vying at a rising level of intensity, the budget/insurance system should be given up for the sake of insurance proper and simple. The pressure for this change-over comes from economic logic -- with the system disastrously underfunded, it is necessary to look for intrasystem savings, which calls for financial resources to be planned and optimally used. This line of reasoning is not to the liking of many health care managers, as the article rightfully notes.

Building up on the case for some legislation to make up the legal framework for a new social compact in the health services, the author formulates a set of most important Acts essential to these services. Most of these Acts have, of course, been passed and are in force. Moreover, the lawmaking done by the State Duma, the Ministry of Health and the Federal OMS Fund goes beyond the list herein presented. The forthcoming Bills, extremely important for the health industry, include those concerning private practice; national municipal and private health care systems; patient rights; revision and amendment of the Medical Insurance Act; property relations in the health services. The last-named Bill is consonant with what the author suggests should be an Act on the "privatization of the property of medical and restcure institutions," but, perhaps, this is not the best name to use to reflect the sum and substance of the processes occurring in the health services.

Privatization, as property takeover by non-insitutional entities, would hardly by itself resolve the problems of Russia's health services. As an economist would say, the only kind of privatization that is certainly worth while is that which is conducive to shaping a competitive environment that makes health care providers ready and willing to contend for their patients. The potential the hospital sector

has for the development of competition is rather limited because our hospital industry has been traditionally built up as a hierarchical multi-tier system with differential types of hospital ruling the roost in their particular market segment. Therefore, one cannot rule out the possibility of the adverse implications of privatization, arising from the inevitable bid of commercial hospitals to focus on cost-effective services, offsetting whatever positive effect the promotion of competitive relations might yield. In any case, the accent in the European systems is not on privatization but on the enhancement of the economic and operational autonomy of hospitals by turning them into hospital trusts, tha is, under management agreement, the hospitals being vested with the rights of accounting units. The article mentions such a version but it can hardly be deemed a form of privatization.

One sector that has an appreciably larger privatization potential is that of outpatient services, which today are represented predominantly by district health centers. Recasting them into a network of independent health care providers must, in our view, become a health service development strategy. At the same time, it is quite obvious that its implementation, apart from being rather time-consuming, must result in altering the functions of outpatient clinics, not in dismantling them.

It is in this somewhat conservative reading that one can accept the author's case for a Privatization Bill. As to another piece of legislation he suggests -- a Bill on non-commercial organizations, it is something that Russian health services do need. A proclivity for standardizing social and economic life has brought us up a dead-end: we hafe found ourselves confined to two models - either State-run institutions or commercial enterprises. However, there is an intermediate one in foreign practice - that of private or public non-commercial organization. On the one hand, such an organization is committed to discharging its statutory mission and, in this sense, markedly differs from a commercial enterprise (in particular, the earnings of such an organization may be used for its development only, not for dividend payment). On the other, such an organization enjoys considerable tax benefits or even tax exemption.

One thing of paramount importance for our health services system is to assure a reasonable compromise between the obligations of the private LPUs within the OMS system and their financial interests. This is what makes so crucial another piece of legislation the author wants us to draft -- a Bill to govern the way tax exemption provisions and rules are to be drawn up and enforced. We must bring about the conditions for a stream of private investment to flow into the health services in the form of endowment funds, long-term concessional credits and acquisition of public bonds.

It comes out that the options the author proposes for the reform to proceed and for it to be couched in unambiguous legal terms are most relevant for the Russian health services. Revamping the functions of health services administration, enhancing the role of independent and economically motivated intermediators in the shape of insurance companies, strengthening the economic self-sufficiency of the LPUs, stimulating the competition of both the purchasers of medical aid and of the health services themselves are all central to the health care reform.

To conclude, let me note that the style and form of writing chosen by the author are novel for the Russian reader. The basic points are set out in table form. Of course, this makes for clarity in spelling out the author's main ideas, but at the same time such a mode of presentation is fraught with a danger of just sketching it out. Unfortunately, the article abounds in propositions that need explaining, at least, or, better still, elaborating. For example, it would take solid arguments, impossible to present in table form, to prove the need for staff participation in OMS policy payment or surcharges for the health care provided. Besides, it is not quite easy to read such tables (even though the article has been translated and edited perfectly well). We thank the author for his interesting ideas and valuable comments. but we would rather stick to our good old mode of writing without too many tables, even at the risk of looking old-fashioned.